

A DIAGNOSIS OF THE SLOW RATE OF ECONOMIC
DEVELOPMENT OF LATIN AMERICA

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and

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INTRODUCTION

There has been a great deal of disagreement in determining the true nature and causes of economic development. Years ago it was popular to explain national wealth or economic progress in terms of the extent and variety of a nation's natural resources. But this approach did not account for the high per capita output of a country like Switzerland which is rather poor in resources. Others have found the reason for high levels of per capita output in the United States and Western Europe to lie in the existence of a free enterprise economy. But this approach scarcely helps us in accounting for the very high growth rates in the U.S.S.R. Cultural anthropologists tend to stress social customs or even religion. More recently it has been popular among economists to relate growth to the level of savings and investment. The successful operation of the European Marshall's Plan after World War II is an evident proof of this statement. But on the other hand, the failure to obtain similar results in Latin America shows that savings and investment by themselves are not a satisfactory solution to achieve a steady rate of economic growth.

This report is an attempt to determine the true nature and causes of economic development in a general view and to explain what the main problems and difficulties are which the Latin American countries have to overcome in order to achieve

a steady rate of economic growth. Both topics imply a broad field and it is useful to devise some limitations. In this report, the former is used as the basis to explain the latter and it can be limited by saying that it is just a general framework. But for the latter, it is necessary to provide some previous clarifications.

In the first place, the treatment of Latin America as an entity and the attempt to characterize the countries of Latin America as a group involves a danger of misrepresentation and improper generalization. Latin America is not an economic region; it is rather a geographic expression for a group of countries having similar cultural characteristics and ties arising out of a common historical heritage. The area embraces regions which differ greatly in climate, topography, and resources, and the economies of the individual countries vary widely in the degree of economic development, the stage of industrialization, and the level of per capita income. It should also be noted that the Latin American economies have achieved little in the way of integration. Natural barriers in the form of mountains, deserts, and impenetrable rain forests, together with the political history of Latin America, have conspired to produce an area of isolated islands of economic activity. Lines of communication between centers of activity in different countries have failed to develop. Nevertheless, the report is concerned with the Latin American economic development as a whole because it is believed that

the problems of economic growth which are stressed in this report are common for all countries of the area.

Secondly, it is important to understand that the problems of the Latin American economic development are quite different from those of the other areas of the world. This does not mean, of course, that the analysis in terms of the aggregate characteristics of the economic and social indicators of the developing nations isolates a situation which exists only in Latin America. No greater mistake could be made if it is concluded that way. The same poverty, the same low productivity, the same low levels of education, and in general the same need to increase the rate of per capita income can also be found as in the developing countries of Asia or Africa. However, the meaning of the initial statement of this paragraph is that the characteristics of underdevelopment in Latin America have different causes than do those in the other developing areas of the world. The human, economic, and physical resources with which Latin America is facing economic development are different from those of the other areas. Therefore, the way of approaching the problems for economic growth in Latin America must be different from those used in discussing the other developing regions of the world.

Finally, although the economic and political integration within the Latin American countries is regarded as an important condition for the economic progress of the area, attention is directed to other common problems of the countries

of Latin America which are usually forgotten or ignored. This report does not attempt to provide a comprehensive description of the Latin American economies nor to consider all the problems which beset them in their efforts to grow. The purpose is to show the importance and possibility of economic development in the countries of Latin America, based on the organized and coordinated investments from the high and middle income people of the agricultural sector through the rational decentralization and suitable leadership of the governmental institutions which are in charge of the actual strategy of development.

CAPITAL FORMATION AND ECONOMIC DEVELOPMENT

The Meaning of Economic Development

In order to understand the problems which Latin America is facing to obtain a steady economic growth, it is necessary to have a clear understanding of the meaning and scope of the different concepts which are used in this report. Such a need has risen not only because it was found that there are large differences in opinions about the concept of economic development, but also because the meaning of economic development might be different for every particular country. Two concepts need further explanation and clarification: economic development and capital.

An adequate definition of economic development is not easy to construct. Harvey Leibenstein,¹ in his book Economic Backwardness and Economic Growth, explained that the vast disparities in natural endowments, economic structure, cultural heritage, and social and political institutions that exist between different regions of the world today are likely to invalidate any attempt to devise a single criterion for distinguishing developed from underdeveloped countries. He stated:

¹Harvey Leibenstein, Economic Backwardness and Economic Growth (New York: Wiley, 1937), pp. 38-45.

Even definitional approaches that combine a number of indicators of economic underdevelopment have so far proved intellectually unsatisfactory because they include so many variables that they become descriptive rather than analytical in character.

Leibenstein, in the prior statement, indicated the difficulty to define economic development, but he did not give the needed definition.

Charles P. Kindleberger,² in his book Economic Development, probably was more helpful with his explanations about the differences between economic growth and economic development. He stated: "Economic growth means more output, and economic development implies both more output and changes in the technical and institutional arrangements by which it is produced." Although Kindleberger is becoming descriptive rather than analytical, as Leibenstein would point out, it seems he is more explicit about the concept of economic development. He continued: "Growth may well imply not only more output, but also more inputs and more efficiency. Development goes beyond these to imply changes in the structure of outputs and in the allocation of inputs by sectors." Apparently, this statement contradicts the prior one. Do not "more inputs and more efficiency," when Kindleberger refers to growth, mean that there should be "changes in the technical and institutional arrangements" by which output is produced? If the answer is positive, Kindleberger is making economic development in his first

²Charles P. Kindleberger, Economic Development (New York: McGraw-Hill Book Company, 1965), p. 3.

statement identical to economic growth in his second statement. If the answer is negative, it is difficult to understand him.

Irma Adelman, in an attempt to make the concept of economic development more clear, defined it as:

The process by which an economy is transformed from one whose rate of growth of per capita income is small or negative to one in which a significant self-sustained rate of increase per capita income is a permanent long-run feature.³

This definition of economic development appears to be a reasonable one, since in the Western capitalistic economies a persistent, endogenously generated rise in the rate of growth of per capita output has taken place, and this growth has remained significantly positive for an extended period of time. On the other hand, the definition serves to distinguish economic development from such processes as sporadic growth and growth sustained primarily by exogenous forces. Nevertheless, the definition suggests that a less developed country can be identified with a low-income country. Kindleberger stated that although the categories overlap to a great extent, less developed countries and low-income countries are not exactly identical. He gave some examples to support his statement:

Sparsely settled countries, like Australia and Canada at the turn of the twentieth century or the United States in 1850, may be underdeveloped but not poor;

³Irma Adelman, Theories of Economic Growth and Development (Stanford, Calif.: Stanford University Press, 1965), p. 1.

another example of a country rich but underdeveloped is Kuwait, with its enormous oil royalties and its high average income per capita, but with the vast majority of the population making no contribution to the high return. On the other hand, it was thought until recently that such countries as Japan and Israel might be developed but poor, because of the sparsity of their natural resources.⁴

The prior quotations are just a few examples of the state of disagreement among economists with regard to the concept and implications of economic development. Nevertheless, despite this state of disagreement, the quotations have pointed out some significant ideas: First, that economic development is the consequence of many variables; second, that economic development is in some way related to the nature of inputs and outputs; and third, that economic development implies a steady rate of growth in per capita income. These basic points can be used as the necessary premises to infer a definition of economic development. To be precise will be less important than to have a tool of analysis. Therefore, using the information above, one can conclude that: Economic development is a complex process by which a country achieves a particular productive capacity which will permit a continuous increase in the per capita income of its inhabitants.

The definition probably will be more meaningful if its concepts involved are further explained. Obviously, in this definition, economic development is made a function of production. Thus, any factor influencing production will have an

⁴ Charles P. Kindleberger, loc. cit., p. 4.

influence in the same direction upon economic development. No matter what the nature of the factor might be; whether it be technology, capital, or even religion, if it affects production it should affect economic development. On the other hand, the goal of production, which is known to be the satisfaction of human desires, and the reward of production, which is known to be profits in a capitalist economy, will be respectively the goal and reward of economic development.

It is obvious that income, which is generated in the production process, is used to purchase goods and services. It is also obvious that goods and services are the intermediate devices of production to satisfy human desires. Then, the definition of economic development implies that the inhabitants of a given country, in the process of economic development, will have a continuous increase in their capacity to satisfy their wants.

Lastly, the complexity of the process of economic development is based upon the complexity of the production process.

It seems that this definition of economic development is what we were looking for. First of all, this definition is very general. It could be applied to the economic development of a wealthy as well as a poor country and would be useful in a capitalistic as well as in a communistic economy. Secondly, the definition is broad in its implications and simple in its statement.

The Meaning and Implications of Capital

Since economic development was made a function of production, it is necessary to turn now to a discussion of the major determinants of production.

Benjamin Higgins,⁵ in his book Economic Development, presented a concise historical review of the production function. He discovered there is almost unanimous agreement among economists to make production, represented by output, O , dependent on the size of the labor force, L , the stock of capital, Q , the amount of land available, denoted by K and to mean supply of known resources, and the level of technique, T . The production function also can be expressed as:

$$O = f(L, K, Q, T).$$

This function seems incomplete because apparently it does not include several other factors that may influence the level of production. For example, the production function omits entrepreneurship. The entrepreneur is the man who sees the opportunity for introducing the new commodities, techniques, raw material, or machine, and brings together the necessary capital, management, labor, and materials to do it. In any society, the level of production, and so of economic development, depends greatly on the number and ability of entrepreneurs available to that society. The production

⁵ Benjamin Higgins, Economic Development: Principles, Problems, and Policies (New York: F. W. Norton & Company Inc., 1959, p. 200.

function also omits the social and political factors. Although Keynes⁶ stressed more other factors, he was aware of the important influence that the "psychological factors" have on consumption, hence on income and production. An example will indicate the importance of the social factors. India has the highest cattle population of the world, therefore, it would be possible for this country to be the largest beef producer of the world. However, Indian religious beliefs restrict the slaughter of cattle. Finally, it is obvious that the political factors are also important in shaping the patterns of production and that governments often perform a role in the production process.

The importance of the variables described above, which has not been included in the classical production function where $O = f(L, K, Q, T)$ indicates that this production function is not the most precise way to explain the complex process of production, also suggests the limited usefulness of this production function. This report will attempt to include entrepreneurship, social and political factors, as well as all the other variables of production, in a different framework of the production process. Also, some explanations will be given concerning the role and relationship of these variables. However, first of all it is very important to have a clear understanding of the concept of capital.

⁶John M. Keynes, The General Theory of Employment, Interest, and Money (New York: Harcourt, Brace & World, Inc., 1964, pp. 91, 107-112.

Many different definitions of capital are available, but for the purpose of this study it will be considered that capital is synonymous with capital good. Harold S. Sloan and Arnold J. Zurcher,⁷ in their dictionary of economics, defined capital good as "a material economic good other than land which is used for the production of wealth." They explained also that most authorities exclude land from the meaning of this term on the grounds that capital goods are created by man and are, for all practical purposes, unlimited in quantity, whereas land is an original gift of nature and is limited in quantity. They also pointed out that other authorities regard land as a particular kind of capital goods, terming it natural capital, thereby distinguishing it from other capital goods which they designate as artificial capital. Samuelson⁸ stated that capital goods "represent produced goods that can be used as factor inputs for further production." He differentiated land and labor, explaining that these factors "are primary factor inputs not usefully thought of as being themselves produced by the economic system."

Nevertheless, some qualifications will be evident. Land can sometimes be made by drainage or filling in. Natural resources such as minerals are laid down by nature, but it may

⁷Harold S. Sloan and Arnold J. Zurcher, A Dictionary of Economics (New York: Barnes & Noble, Inc., 1965), p. 47.

⁸Paul A. Samuelson, Economics: An Introductory Analysis (New York: McGraw-Hill Book Company, 1964), p. 46.

take much economic effort to locate, use, and possess them; thus, they come to have some of the properties of capital goods. Also, one realizes that the process of education consists of investing in people, thereby making them more production factors of production; and when one sees a medical school graduate, one is in a certain sense looking at a chunk of capital or at an economic production factor that is partially capital.

Therefore, this report will accept Samuelson's statement that capital goods represent produced goods that can be used as factor inputs for further production, but this statement will be accepted with all its implications. That is, if the necessity to change land to make it productive exists, then land will be regarded as capital. If workers have to be trained to become a part of the production process, they will also be regarded as capital. Finally, this definition implies that entrepreneurship, social and political factors, or even religion and social customs are capital since they are man-made and sometimes have an important role in the production process.

From this definition of capital it is logical to conclude that capital would be the production unit of the economy with the same meaning as the atom is the unit of matter of the universe and the cell is the biological unit of life. In this sense, technology, to mention an example, would not be more than a functional classification of capital in the same way that the heart or the brain is not more than a functional

cellular classification. Therefore, the study of the production of goods to satisfy human wants would be reduced to the empirical study of the relationships among the capital inputs of these goods. An attempt will be made to explain the production function on these bases.

The Production Function

Capital, regarded as the production unit of the economy, is a very general concept. It is difficult to find any factor used in the production process which can not be referred to as capital. This generality can give rise to some objections. For example, it can be argued that the analysis of the numerous amounts of capital inputs and stages of production we can have would make the study of production become an extremely complicated matter to undertake. Fortunately, this is only a sophistical problem because the capital inputs used in the production process of any given goods have particular characteristics which are similar to the characteristics of the capital inputs used in the production process of all other goods. Besides, the role played by similar groups of capital inputs in the production process of the different goods is practically the same. Therefore, for the purpose of analysis and in order to obtain a full advantage of the general concept of capital, it will be useful to use the common characteristics of the different capital inputs and to devise a functional

classification⁹ within capital itself.

For all practical purposes, any capital input used in the production process can be included in one of the following groups or categories: (a) resources, (b) technology, (c) social, political, and economic environment, and (d) entrepreneurship. These groups or categories, which are adapted to the performance of specific functions in the production process, will be known in this report as the organic components of production, and an attempt will be made to provide a brief description of them.

Resources.

Resources can be understood to be all those capital inputs which are the physical framework of production. The physical environment of production; that is, the site, buildings etc. in which production takes place is one of the capital inputs which can be included as resources. The tools, the raw materials, the monetary capital inputs, and the human resources, when they have merely a physical function in the production process, are other examples of resources. Resources are the tools for the other organic components of production, and most of the time the influence of the other organic components of production upon the resources used in production

⁹ A functional classification can be defined as the systematic arrangement in groups or categories of the different capital inputs according to their specific functions in the production process.

is much more important than otherwise; the large degree of industrialization of England can be mentioned as a good example of this statement.

Technology.

Increasing importance has been given to this organic component of production over the later years. The major ingredients of technology are: (a) knowledge, and (b) manual, managerial, and professional skills which although they may overlap in their functions they can be regarded as different entities; it is not difficult to see that it is possible to have skills without knowledge and knowledge without skills. Technology suggests the way in which goods should be produced. It indicates how to produce and what resources should be employed.

Social, political, and economic environment.

The capital inputs included in the social, political, and economic environment are too many to enumerate; customs, religion, habits, laws and regulations, transportation facilities, and income distribution are just some examples. The social, political, and economic environment can be qualified as the forgotten organic component of production; however, this component is among the most important when it has a suitable relationship with the other organic components of production. Its responsibility is to determine what goods should be produced, why they should be produced, and in what amounts.

It determines the regional distribution of goods among people and largely determines the profitability or economic efficiency of production.

Entrepreneurship.

The capital inputs for entrepreneurship will be those such as information, analytical tools, etc. The entrepreneurs can be individuals; associations; city, state, or national governments; or any entity able to have the following functions: recognizing investment and production opportunities; organizing an enterprise to undertake a new production process; raising capital, hiring labor, arranging for supply of raw materials, finding a site, and combining these capital inputs into a going concern; introducing new techniques and commodities and discovering new sources of natural resources; and selecting top managers for day-to-day operations. Therefore, entrepreneurship is the organic component of production in charge of the organizational aspects of production and the one which mainly determines when to produce.

The organic components of production described in the preceding paragraphs are not independent from each other. They are not a static set-up which will be unchangeable over time. The organic components of production have multiple relationships within their capital inputs and also among themselves. They tend to change quantitatively as well as qualitatively all the time. The resources used a hundred years ago are completely different from those used today, and the same

could be said about the other organic components of production. To be aware of its multiple relationships and of its dynamic aspects is a step of primary importance in understanding the production function and the basic principles of economic development.

The framework in which the production function rests should be evident by now. In any country or in any region within a country, the kind or level of output will be determined in the following manner: the social, political, and economic environment will establish what, why, and in what amounts, goods should be produced; technology will evaluate the manual, managerial, and professional skills; it will appraise the existent knowledge and the kind and quantities of available resources, and will suggest how to produce; finally, the entrepreneur will gather all this information; he will organize it for production; and he will decide when to produce and what should be the level of output. As a summary statement, it can be said that the kind and level of output is a function of the organic components of production and of their relationships within or among themselves. Since it has been found a satisfactory explanation of the production function, the next step will be to explain the principles of economic development.

The Basic Principles for Economic Development

Two important gains have been achieved in this report so far. First, economic development was defined as a complex process by which a country achieves a particular productive capacity which will permit a continuous increase in the per capita income of its inhabitants. And later, the incomplete classical approach which has been used to explain the production function until this time lead to an attempt to a more precise approach. Once these steps have been taken, it remains to attempt an explanation of the process of economic development.

From the definition of economic development, axiomatic and simple is to say that in order to obtain a sound economic development, the only step any country should take would be that of achieving the particular productive capacity which will permit a continuous increase in the per capita income of its inhabitants. Nevertheless, to establish the characteristics of the specific productive capacity which will permit a raising of the per capita income is a more difficult task. Obviously, an increasing per capita income can be achieved only through increasing production since, with population held constant, income has a direct relationship to production and if production increases, income should increase by the same proportion. However, an increasing production is only the expression of higher values of and optimum relationships among the different organic components of production. Therefore, in

order to achieve a progressive economic development in any country, it is basically important for that country to bend its efforts toward an understanding of its organic components of production and to orient its policies toward higher values of and optimum relationships among its own organic components of production. Finally, since the organic components of production are just the product of the different capital inputs, which are used for further production, it can be pointed out that capital accumulation is the very core of economic development. Whether in a predominantly private enterprise system like the American, or in a communistic system like the Russian or the Chinese, economic development cannot take place without capital accumulation.

Once an underdeveloped country, an area or a local region within a country, is aware of the level of its own organic components of production, it can use the organic components of production of the more well-developed countries or the more developed areas as a useful standard for comparison. However, it will be very important for the underdeveloped country or the underdeveloped area to have a clear understanding of some of the more relevant relationships among the organic components of production. These relationships can be summarized in the following statement: Without capital accumulation, resource discovery and technological change, increases in output are impossible. The acquisition of new manual, managerial, and professional skills is virtually inseparable

from resource discovery and technological change. The social, political, and economic environment of any country is largely dependent upon new manual, managerial, and professional skills. And finally, neither capital accumulation nor technological progress will reach high levels through private initiative unless the social, political, and economic climate is one conducive to the appearance of a large and growing supply of entrepreneurs.

Once a leader, because of the suitable social, political, and economic environment, has shown the opportunity for new commodities, techniques, raw materials, or machines; for example, of steam power, electricity, automobiles, airplanes, or whatever; and he has brought together the necessary manual, managerial, and professional skills to do it, a cluster of followers will join the parade in search of profits, power, or public weal. New capital will be created; new technology will be devised; new manual, managerial, and professional skills will be generated; and improved social, political, and economic conditions will be the rule. This expansion is evidence that economic development is largely a matter of getting started and of the important role of capital in the economic development process.

CAPITAL FORMATION IN LATIN AMERICA

Importance

Although the analysis which was made in the preceding part of this report is not complete, it will provide us with the tools which can be used in the diagnosis of the ills of the Latin American productivity. Hence, it will be possible to understand the reasons why this area of the world has not achieved a sound rate of economic development. Let us consider first why it is so important to speed up development.

The increase in the population is certainly phenomenal. At the beginning of the century, there were 63 million inhabitants in Latin America, and the annual rate of demographic growth was 1.8 per cent. Now the number is 220 million, and the annual rate of growth which is 2.9 per cent, shows signs of rising even higher. In 1900 the population increased by 1.1 million inhabitants, and in 1960 by 6.4 million.¹⁰

On the basis of conjectural data, it may be estimated that about half the existing population has a low average personal income of 120 dollars a year.¹¹ This vast social

¹⁰United Nations, Towards a Dynamic Development Policy for Latin America (New York: United Nations Publications, 1963), p. 3.

¹¹Ibid.

aggregate accounts for only about one-fifth of the total personal consumption in Latin America and shows the highest coefficients of under-nourishment, poor clothing, and worse housing as well as more prevalence of disease and of illiteracy. Furthermore, this group has the highest rate of reproduction.

The very low annual growth rate of 1 per cent registered by per capita income in Latin America, as a whole, since the mid-fifties is a clear proof of the lack of dynamism in Latin America's development. Comparison of this rate with the 3.7 per cent attained in Western Europe during the last decade, Japan's 8.3 per cent, and the annual per capita rates of between 5.3 and 9.0 per cent in the socialistic countries of Eastern Europe, indicates the full significance of the fact. At the rate of 1 per cent it would take seventy years to double the per capita income in Latin America as a whole.¹²

Potential Investment Capacity

Distribution of income.

In 1961 the region, as a whole, was regarded as having an average per capita income of 400 dollars.¹³ This figure is two-fifths of that enjoyed by the more economically advanced

¹² Ibid., p. 23.

¹³ United Nations, The Economic Development of Latin America in the Post-War Period (New York: United Nations Publications, E/CN.12/659/Rev.1, 1964), p. 49.

countries of Western Europe, and one-sixth of that for the United States and Canada taken together. According to this indicator, Latin America has an income which is barely half of that for the countries of Eastern Europe, and is below the average world level, which is about 600 dollars. These figures, therefore, show that the region, as a whole, is a part of the two-thirds of the world's population that has less than 20 per cent of the world's income.

The index of the average per capita income of each of the countries of Latin America is far from reflecting the true living conditions that prevail in the region. The region is distinguished, like other under-developed areas, by an extremely uneven distribution of income, with a vast sector of the population whose income levels are extremely low and, of course, far lower than those indicated by the average figures, and a small number of persons who enjoy a considerably large income.

Some examples will make this situation clearer. In Chile, a recent estimate indicates that in 1954 less than 3 per cent of persons in the upper income brackets obtained a quarter of all personal income, whereas at the other extreme, about 55 per cent of the population received less than 16 per cent of all income. In Mexico, it was estimated that in 1957 less than 5 per cent of the families with the highest incomes obtained 36 per cent of the national income, whereas 56 per cent of the families with low incomes received 19 per cent of

all income. Data for 1950 show that less than 8 per cent of the families in El Salvador receive over half of the country's total income, whereas 61 per cent receive only one fifth of the total.¹⁴ In Venezuela, the Shoup committee¹⁵ reported that "about one-eighth of the income receivers get one half of the total income. At the other extreme, 45 per cent get about one tenth of the income." Lastly, a recent study showed that 78 per cent of the population of Ecuador receives less than 55 per cent of the income, whereas something a little over 1 per cent received 17 per cent.¹⁶

General categories for the whole area.---In general, it has been estimated by the United Nations¹⁷ that, according to the income received, four categories could be devised. Category I, which comprises 50 per cent of the population, absorbs 16 per cent of the total personal income. On an average, each person belonging to this group has an income amounting to only 120 dollars per annum. This category appears to include a very high proportion of the unskilled rural and urban workers, domestic help, small artisans, street vendors, and pensioners with a low level of income. Each family (calculated as an

¹⁴Ibid., p. 51.

¹⁵Carl S. Shoup et al., The Fiscal System of Venezuela (Baltimore: The Johns Hopkins Press, 1959), p. 25.

¹⁶Banco Central del Ecuador, Memoria del gerente General Ejercicio 1958, Quito, 1959, p. 33.

¹⁷United Nations, The Economic Development of Latin America in the Post-War Period, loc. cit., p. 65.

average of 5.5 members) in this category would have an average monthly income of about 55 dollars, with a possible maximum of 100 dollars.

Category II, which includes 45 per cent of the population, accounts for about 50 per cent of the total personal income which amounts to 400 dollars annually. Presumably, included in this category are medium-grade public and private employees, skilled workers, craftsmen, small dealers, small property owners, persons living on modest incomes from investment, and pensioners with a similar level of income. The average monthly income of a family in this category would be approximately 190 dollars; however, the range would be from 100 to 500 dollars.

Category III, which comprises 3 per cent of the population, absorbs 14 per cent of the total income. Each person in this category has an income of nearly five times that of the general average, or about 1,750 dollars a year. It would include certain independent professional workers, large-scale farmers, merchants and industrialists, medium-size property owners, and high-level executives of the public and private sector. The monthly income of a family in this category averages about 800 dollars, but ranging from 500 to 1,300 dollars.

Category IV receives 19 per cent of the total personal income and represents 2 per cent of the population. Each person in this category has a per capita income of 3,500 dollars or more a year. This group comprises the families of

large property owners and entrepreneurs, and a few executives and professional people not included in the previous categories. The average monthly income is a minimum of approximately 1,600 dollars. This 2 per cent of the population has a higher income in total than that earned by those of the 50 per cent in category I, and its per capita income is nearly thirty times that of the low-income group.

Consumption of the different categories.--Personal consumption at factor cost represents an average of 75 per cent of the total personal income, and the respective proportions for categories I, II, III, and IV are 90, 76.5, 74, and 58 per cent. The above proportions represent an average amount of consumption per head in each category in relation to the income in dollars of 110, 310, 1295, and 2040, respectively. Thus, a person in category IV consumes, on the average, 18.5 times the amount consumed by a person in category I. If one takes into account that the income-elasticity coefficient of the higher social brackets is comparatively low for the consumption of foods and other essential items, the foregoing figures will show a considerable proportion registered as less essential items and as luxuries in the consumption of these groups.

This impressive disproportion in the consumption of the groups in question, and in the income transferred abroad for investment and hoarding, implies an ample saving potential which would permit a sharp increase in the rate of development,

provided other conditions were met at the same time.

In fact, if consumption by the upper-strata¹⁸ were brought down to not more than eleven times that of the lower strata, the annual per capita income growth rate could be raised from 1 per cent to 3 per cent, and if it were only nine times as great, the annual per capita rate could rise to 4 per cent. If we were to use a rate of growth of 3 per cent in Latin America, as a whole, a rational redistribution policy would enable the personal income of the under-privileged half of the population to be doubled in seventeen years.¹⁹

This unequal distribution of income apparently represents a serious obstacle to development. Nevertheless, if we consider more seriously the reasons for the consumption of less essential items and luxuries, as well as the amount of income transferred abroad for investment and hoarding, it can be found that this unequal distribution of income could be used advantageously to speed up the economic development of Latin America. But first of all, it is important to understand one of the main problems in the economic development of Latin America and the implications of that problem.

¹⁸This makes reference to categories III and IV put together, which amounts to 15 times the consumption of number I.

¹⁹United Nations, Towards a Dynamic Development Policy for Latin America, loc. cit., pp. 3, 32.

Centralized Government Administration

Historical political background.

Latin America's most sensitive difficulties are political and social. Unless and until there is some visible change in the political and social environment, the nearest perfect plans for economic betterment will falter and fall below the results expected from the great efforts now put into industrial development.

The first invaders of the Iberian Peninsula developed a one-man rule which was to become traditional and habitual for centuries. This fact made the few attempts to establish democratic institutions in Spain and Portugal almost impossible and so contrary to history and tradition as to appear exotic. In the struggle with the moors, the kingship rapidly gained prestige and was gradually consolidated through political gains within family limits. Because the reconquest was a religious crusade and because the Pope supported the Iberian Kings, their prestige was not only immensely increased but widely recognized. Eventually, the King exercised all power and "could do no wrong."²⁰

When the Iberians discovered America they found the natives organized under a one-man rule of caciques, or chiefs, and formed into tribes for social and political reasons. This fact enabled the Iberian crowns to incorporate rapidly the

²⁰ A. Curtiss Wilgus, ed., The Caribbean: Its Political Problems (Gainesville: University of Florida Press, 1962).

Indian tribes into their empires by use of military conquest and religious persuasion, much in the same way as numerous political and geographical divisions of the Iberian Peninsula had been forcibly united for political purposes. Inter-marriage between Iberians and American natives, a natural result of the integration of the two races, resulted in a furthering of political unity. But at the same time, this process failed to produce any greater democratic feelings in the offspring of the union than that which existed in either race.²¹

Throughout the Colonial era, a period of more than ten generations, the King's person, power, and prestige were represented in the colonies by a viceroy or someone with similar royal power, who exercised the crown's function in such a paternalistic manner as to discourage constructive thinking, individual initiative, and general cooperation. Thus, the tradition of one-man rule was naturally perpetuated in Latin America with little opposition, and even the elements of democracy existing in the Spanish colonial municipalities in the sixteenth century disappeared before the overwhelming preponderance of historical factors and traditions. No matter how far back one looks in Latin American history, he sees a vast panorama of nearly absolute rulers extending from the Roman emperors through Germanic chieftains, Moorish caliphs,

²¹ *ibid.*

Iberian kings, Indian chiefs, and colonial viceroys. What worse preparation for democracy could Latin Americans have had than this, and what excellent precedents were established for the justification of dictatorships?²²

Historical influence in local governments.---Political historians discussing Hispano American contemporary problems have consistently failed to notice the importance of the correlation existing between these problems and the basic crisis in local government that goes back for several centuries.

It may seem strange, but the Wars of Independence, which helped to set up national governments in the colonies, gave the death blow to local governments. Leading people did not care any more to fill the local offices of the government. The upheaval had put an end to the system of high offices being reserved for privileged people sent by the mother country. These high offices were now open to the people of the new nations; hitherto they were limited to being in charge of only local government offices. With the new setup they could be presidents of the republics, ministers, senators, generals, and admirals; they wanted offices of national distinction and big income. Thus, it happened that the political vacuum at the local level, brought about by independence on a national scale, fell the hordes of ignorant, untrained, and

²² Ibid.

irresponsible people who had until this time been kept away from the actual government of the municipalities. They were going to be the new heads of the local governments; however, they were not prepared for such jobs. Little or no provision was made for public services, urbanization, public buildings, education, welfare, recreational facilities, communications, or public health. Corruption became widespread and there was a complete deterioration of local government.²³

The actual situation.--The state of affairs prevailing at that time also brought continuous attempts to change the corrupt conditions or, as in most of the cases, the ambition to obtain the power involved in the higher levels of government, frequent civil wars were the rule. This is still the actual situation in most of the countries of Latin America today; hence the right of the government to survive is therefore under continuous challenge.

Under these conditions, the question of political survival for the administration is the primary concern. It should be very clear that this is the basic difference between Latin American governments and the United States government. In the United States, the policies of the government may be under constant and bitter political attack, but no one challenges his right to survive to the end of his term, and no one

²³Herninio Portell-Vila, "Backgrounds of Public Administration and Local Government in the Caribbean" in Wiigus, Curtis A., editor, The Caribbean: Its Political Problems (Gainesville: University of Florida Press, 1962), pp. 199-214.

doubts the peaceful transfer of political power after the next election. In Latin America, with some exceptions, the government's right and ability to survive to the end of its term in office is in continuous question.

If, for instance, the present government of Venezuela survives, as there is prospect that it will, to the end of its term, it will be the first elected government that will have done so in all of the country's history since the Independence.²⁴

Where there is no security of political survival to the end of the elected period, there is even less certainty of a peaceful transfer of power. These two considerations make centralization of government inevitable; they also make personal government unavoidable. The president is always building his political fences, always watching out for a possible conspiracy, and always concerned about the loyalty of his collaborators. And the history of Latin America is replete with examples of the need for just this caution and vigilance on the part of the chief executive. What this does to the administration is to throw every decision into the president's hand. He must make every decision, even the smallest. He needs all of the power he has to keep himself in office, and all of the vigilance possible to prevent a successful challenge to his survival.²⁵

²⁴Frank Tannenbaum, "The Influence of Social Conditions," in Martin Kriesberg, editor, Public Administration in Developing Countries (Washington, D.C.: The Brookings Institution, 1963), p. 36.

²⁵ibid.

Economic implications of centralization.

Recently the ruling class of most of the Latin American countries, because of the Cuban case, has understood that the safest way to secure their political survival is based largely on their interest in speeding up economic development. On the other hand, because of the modern methods of communication, especially by the use of the transistor radio, people have become more aware of their responsibilities and positions in regard to the other areas of the world, as well as of the better conditions of the people in the more advanced nations of the world. Nevertheless, neither the ruling class nor the citizens of the different countries have realized that enormous structural barriers exist between their interest and the practical execution of their aspirations. These barriers are mainly the product of the traditional centralization which has been inherent to the Latin American environment for a long time. Some of these barriers are the following: centralization of the economic activity in the capital cities, lack of knowledge of the investment opportunities, especially in the local areas, and the lack of economic organizations also at the local level.

Centralization of the economic activity.---In Latin America, the capital city is impressive and dominating. A recent survey showed that in every Latin American nation except Brazil and Columbia, the capital city had more inhabitants than all the other cities of 100,000 and more combined.

For example, nearly 30 per cent of the population of Argentina is found in Buenos Aires; 17 per cent of Venezuela's population resides in the Caracas metropolitan area; and 44 per cent of Uruguay lives in the Montevideo area.²⁶ By analogy, 57 million, 32 million, and 83 million, respectively, would be living in Washington, D.C. today.

But the difference is not merely in size. The capital city is not only the largest city, but it is, one might say, the nation. To leave the capital is to leave the center of power, wealth, education, and the sophistication of the modern world.²⁷

Latin America consists of cities, towns, and villages, with no human habitations in between. This is true almost everywhere. Buenos Aires, Quito, Lima, and Caracas are large cities surrounded by a human vacuum. This situation is also true of Cuzco and Arequipa, of Cuenca and Ibarra, of Zacatecas and Chihuahua, and of the thousands of smaller towns and villages. The mountains on the Pacific side of Central and South America and the broken character of the Mexican altiplano have

²⁶ Institute of International Studies and Overseas Administration of the University of Oregon, Problems of Latin American Economic Development. Study number 6 of the compilation of studies of the Committee on Foreign Relations of the United States Senate, United States-Latin America Relations, 86th Congress, 2d Session, Document No. 125, p. 585.

²⁷ Frank Tannenbaum, "Toward an Appreciation of Latin America," in Herbert L. Matthews, editor, The United States and Latin America (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1964), pp. 13-14.

all served the same end; to isolate the community, large or small, and shut it off from the nation.²⁸

The typical community is a little town of a few houses grouped about a square, with a church, a municipal building, a jail, and a few poorly stocked stores. The rest probably is unpaved streets, houses with doors closed, and no windows facing the street. These houses have courtyards where the life of the family goes on, where the few animals are kept, and where flowers may be grown. The house, isolated from the community, is shut in on itself. So also is the town; it is peaceful, quiet, self-conscious, and proud. Its contacts with the outside world are limited; it buys little and sells little. The capital of the state or of the nation is a long way off; there is no reason for going there. Most of the things needed are produced locally. The houses are built of local materials; the shoes and clothing are locally made and even now perhaps are fashioned from hide tanned and cloth woven locally. In the main, the food is locally grown. If it is a large town of, say, 5,000 people, it will have a local band. It may have a four-page weekly newspaper. The large paper from the capital may be received by a few more sophisticated people. The important institutions will be the town government, the school, and most important of all, the church. These are the places where the town, as a whole, gathers.²⁹

²⁸Ibid.

²⁹Ibid.

But the community we have just described is relatively large. The little town of 100 or 200 families is the typical community. It is in such towns where most of the people live, not only in Peru or any other country, but also in all Latin American countries. The little village has almost nothing that identifies it as part of the modern world. Of the nation and its politics, this little village knows little. It lives in a world a thousand miles away from the big city where the President resides. On the other hand, the President does not know too much about the village conditions. He is more worried about his political survival. Besides, he has all he desires in the capital city. It is almost as two different universes.

Furthermore, in addition to the two kinds of towns, the capital city and the little community, another kind of town exists. This is the provincial capital or the capital of the departments or states. The provincial capital can be regarded as having the characteristics of both the capital of the country and the little community. The differences, which can be in size of the population, in culture, or productive capacity, between the provincial capitals and the little community are sometimes as large as those existing between the capital of the country and the capitals of the departments or states. On the other hand, little knowledge exists in the provincial capitals concerning the problems of the country and of its relation to the other parts of the world, and most of the

commodities needed in these towns are, as in the case of the little communities, locally produced.

Trade among the departments or states is as unusual as it is among the different countries of Latin America. Agricultural products produced in the little communities go to the provincial capitals and from there to the capital of the country. And the imported products, which with few exceptions, are received only in the capitals of the different countries of Latin America, go in the other direction. No reason can be seen to buy or sell to other departments; food and other necessary goods are locally produced, and those goods which cannot be locally produced are obtained from the capital of the country, or, in the case of the little community, from the provincial capitals. Only in those countries, such as Mexico, Brazil, or Argentina, where the large size has made the one-way kind of trade more difficult, has a little more of the regional trade been developed.

Lack of economic organizations and lack of knowledge about the investment opportunities.--The sort of production of the capital cities of the countries of Latin America is quite different from that of the provincial capitals. In the former, industries, trade, and services are the rule, and the goods produced are sold in the capital city as well as in the other regions of the country. In the latter, the industrial production, either in the provincial capitals or in the other towns of the department or states, is limited to the local needs of

the town and the agricultural production is the rule in all of the regions.

In the capital cities of the countries of Latin America, because of the volume of trade derived either from the other areas of the country or from the other regions of the world, large profits have been made. This situation has been the incentive and the reason for an increasing and more dynamic trade which ranks very high in the economic life of the capital cities. Because of the close contact of the import-export organizations of these cities with the highest industrialized countries of the world, and because all of the technical and administrative branches of governments are located in the capital cities, the most modern technology and the necessary manual, managerial, and professional skills are easily available for use. This fact, combined with the profits from the active trade which is limited only by the market size of the capital city and by the one of the country as a whole, has been the reason for the construction of large and sophisticated factories using the most advanced technology. The new investments have generated more income and more employment, and the improved social and economic environment has been the reason for the development of a greater supply of entrepreneurs. Finally, entrepreneurs have gathered the profits, have looked for the necessary technology and skills either locally or abroad, and have given them the form of new economic organizations.

This cycle has been reflected in the fact that the average per capita product in the richest region of the countries of Latin America is often over ten times that of the poorest regions. A recent study made in the United Nations mentioned this situation:

In Latin American countries the ratio between the average per capita product in the richest region and the poorest is often over 10, whereas in the United States it is only 2.5, and in Spain and Italy, where average incomes are similar to those of the Latin American countries, it is only 4 and 5, respectively. Broadly speaking it can therefore be stated that while there are some areas that as a whole generate an income close to that of some of the more developed countries, there are other areas where the average is not much above subsistence level.³⁰

On the other hand, as we stated above, the industrial production either in the provincial capitals or in the other towns of the departments or states is limited to the local needs of the town and the agricultural production is the rule in all of the region. It is in the department or state level where the large latifundios and plantations exist. Thus, before going deeper into our discussion, it will be useful to explain the agrarian structure in Latin America.

In looking at the agrarian structure in Latin America, what is most striking is the great concentration of ownership in a relatively few large units, and the vast number of very small units at the other end of the scale. For the purpose of this report, only the former is important; that is, the great

³⁰ United Nations, The Economic Development of Latin America in the Post-War Period, loc. cit., p. 55.

concentration of ownership. As practically all of the statistics are in terms of management units rather than ownership units, the degree of concentration usually is even greater than the data indicate. A few figures will illustrate this concentration.³¹ In Guatemala, 516 farms (0.15 per cent of all farms) represent 41 per cent of the agricultural land. In Venezuela, 74 per cent of the farm acreage, comprising 6,800 units (1.69 per cent of all farms), is in holdings of over 1,000 hectares. In Ecuador, 705 units (0.17 per cent of all farms) include 37 per cent of the farm land. Half of the farm land in Brazil is in the hands of 1.6 per cent of the owners. In Nicaragua, 362 owners have control over fully one-third of the agricultural acreage. The most extreme concentration would be observed in Bolivia prior to the land reform; there, 92 per cent of the land was in fewer than 5,500 units, representing 6.4 per cent of all farms. A rapid summation of the available data yields the figures shown below for Latin America as a whole.³² Roughly, 90 per cent of the land belongs to 10 per cent of the owners.

³¹ F.A.O. Second Latin American Seminar on Land Problems, Montevideo, Uruguay, November-December, 1959. (Mimeographed Spanish documentation.)

³² Oscar Delgado, Estructura y reforma agraria in Latino America (Bogota, Columbia: Sociedad Economica de Amigos del Pais, 1960), p. 22.

Size of Farms (hectares)	Per cent of Farms	Per cent of Land Area
0-20	72.6	3.7
10-100	18.0	8.4
100-1,000	7.9	23.0
Over 1,000	1.5	64.9
Total	100.0	100.0

These four patterns of distribution of the land determine approximately the four categories of the distribution of income described above. The latifundio pattern has two main variants: the hacienda type of extensively cultivated estates and the intensively worked plantations. The hacienda is typically a livestock-cereal operation, with very low capital investment per unit of land area. Ownership is often of the absentee type, and the owners, depending on the importance of the operation, can live in different towns, the provincial capital, or the capital of the country. The hacienda system is a paragon of inefficiency and at both the firm and the national level, output per man and per land unit is low. The manager is usually some one who was born nearby in the area; most of the time he does not know how to read, and knows as little about agricultural techniques as the owner of the farm. Everything is done in a traditional manner. The owner of the smallest units usually works on a larger farm and leaves some one in charge of his farm. The plantation, on the other hand, generally shows a high capitalization, combined with a better

labor organization. Generally, this type of farm produces for exportation.

One of the most important problems in the level of the departments or states, however, is that of the functionless type of local government existing in all the countries of Latin America. George I. Blanksten, in an appraisal of the local government of Latin America, stated:

... the functions of local governments of the departments or provinces are primarily executive and administrative rather than legislative or judicial, with the result that relatively little determination of major policies or resolution of significant conflicts of interest is performed on this level of government. ... The department or province itself operates essentially as the creature or agent of the national government, carrying out instructions and serving its interest rather than those arising locally.³³

Technical assistance of any kind does not exist at the department or state level. In some countries, there could be a kind of extension service, but this is very inefficient and is hardly a practical help; furthermore, when it exists, the assistance is limited to those general problems concerning agriculture. There is no type of organization engaged in the planning of community development. On the other hand, people from the departments or states usually do not go to the capital city of the country since most of the time it is too far away. Buyers and sellers come to the different towns to obtain the agricultural products and to sell some of the products brought

³³ George I. Blanksten, "Problems of Local Government in the Caribbean," in A. Curtis Wilgus, ed., The Caribbean: Its Political Problems, loc. cit., p. 217.

from the capital city. Some consequences will be discussed in the following paragraph.

Because there is no trade among the different departments or states, and because of the degree of isolation in which the people in these areas live, it is very difficult to obtain new technology and manual, managerial, and professional skills; investments are made either in the largest city or, more importantly, in the acquisition of additional land. Higher profits from larger farms go again to the capital of the country, to buy more land, to be idle in a bank account, or to be an important factor in determining inflation. The rich become richer because of their larger amounts of land, but at the same time become more careless in their agricultural enterprises. Improvements on the farms do not seem necessary. There is no reason to make things complicated; profits are easily earned any way; besides, to hire an agricultural technician from the capital makes no sense. As the owner of the large agricultural enterprise becomes richer, his highest aspirations are to live in the capital of the country and to become a high-ranking politician. On the other extreme, the poor are each time in worse conditions. Prices go up, but they are still earning the same salary. The social, political, and economic conditions of the departments or states go from bad to worse. Entrepreneurs, professionals, the new wealthy farmers, and even some workers from the farm leave the province in search of better living conditions in the capital city.

Economic organizations become useless. They are not necessary to buy land; besides, the people do not know the meaning of such a word. Finally, the capital city becomes more powerful, more wealthy, more educated, more sophisticated, and more crowded by politicians. On the other hand, the departments become less populated, the streets of the towns more lonesome, and the farm workers with their misery and ignorance keep on working the land that they know they will never own.

CONCLUSIONS

Using the framework of the theory of economic development which was discussed in the first part of this report, where economic development was considered a function of production, and production was made dependent upon its organic components, and using the analysis which was made concerning the organic components of production in the countries of Latin America taken as a whole, we are now in the position to determine the symptoms of, diagnosis of, and prescription for the ills which are affecting the economic development of Latin America.

The analysis made on the economic conditions of Latin America has indicated the following facts: (1) Modern technology and manual, managerial, and professional skills are available from the largest cities of the countries of Latin America or from abroad. (2) The value of the agricultural production ranks very high in the gross national product of the different countries of Latin America. (3) Although approximately 30 per cent of all the farms comprising about 97 per cent of the area of the total number of farms may be regarded as inefficient units, they do yield positive profits. (4) The profits derived from these farms are usually invested in the acquisition of more land, kept in idle bank accounts, or may be regarded as producers of inflation. (5) Fifty per

cent of the population earns about 84 per cent of the total personal income and spends only 72 per cent of these earnings (using the average annual per capita income of categories II and III and the minimum per capita income of category IV, and comparing them with the personal consumption of the different categories). (6) The farming area is distributed at the department or local level.

The facts mentioned above suggest the following conclusions: (a) the largest part of the 84 per cent of the total personal income is distributed among the 30 per cent of the owners of all the farms from the different departments and local areas, and (b) although expenditures account for only approximately 72 per cent of these earnings, investment in more efficient ways of production, either in agricultural or in industrial enterprises, at the local level, does not take place because of the lack of knowledge about the investment opportunities, because of the lack of knowledge concerning the size and location of regional and international markets, and finally because of the lack of knowledge about the usefulness of economic organizations.

In addition, the analysis of the social and political conditions of Latin America indicate the following facts:

- (1) The people from the local regions of the different countries of Latin America live in a high degree of isolation.
- (2) The historical, political background of the countries of Latin America still have a great influence on the different

local governments of the area. (3) The local governments of the countries of Latin America have only administrative functions. (4) The local government representatives are nominated by the central government. (5) At the local level, there is a complete lack of technical assistance to provide better agricultural and industrial ways of production and hence, the social, political, and economic conditions go from bad to worse.

The set of facts concerning the social and political conditions of Latin America explain the reasons for its economic problems in the following way: (a) the lack of knowledge about the investment opportunities, the lack of knowledge about the size and location of regional and international markets, and the lack of knowledge concerning the possibility of economic organizations is due to the degree of isolation in which the people of the different local areas of the countries of Latin America live, and (b) this high degree of isolation is determined by the habitual governmental centralization existing in all the different countries of Latin America.

Finally, the first part of this report suggested, among other things, that: (1) The vigor of the economic development of any country is determined by the integrated participation of all its different regions in the total production of that country, and (2) The level of production of any country or any region of that country is determined by the value of its organic components of production.

The prior conclusions and facts, as well as the concept of production and of economic development studied in the first part of this report, suggest the following conclusions:

(1) The countries of Latin America can only achieve the most rapid rate of economic development if they bring about the efficient participation of their local areas in the national production process. (2) The only way to satisfy this condition is through new patterns and higher values of the organic components of production supplied to the local areas both (a) by a rational decentralization and suitable leadership of the governmental institutions which are in charge of the actual strategy of economic development, and (b) by the organized and coordinated investment derived from the profits (which are currently used to buy more land, are idle in bank accounts, or produce inflationary pressures) earned by the high and middle income people of the agricultural sector.

SUMMARY

In the first part of this report, the framework of a theory of economic development was developed in order to use it in the second part as a tool of analysis in the diagnosis of the problems that Latin America is facing in attempting to increase the per capita income of its inhabitants. The theory in summary is: Economic development is a function of production, and production is a function of its organic components which rely upon a certain relationship to generate increasing production. Without capital accumulation, resource discovery, and technological change, increases in output are impossible. The acquisition of new manual, managerial, and professional skills is virtually inseparable from resource discovery and technological change. The social, political, and economic endowments of any country are largely dependent upon the new manual, managerial, and professional skills. Finally, neither capital accumulation nor technical progress will reach high levels through private initiative unless the social, political, and economic climate is one conducive to the appearance of a large and growing supply of entrepreneurs.

In the second part of the report, and using the prior tool of analysis, it was concluded that the habitual governmental centralization, inherited from the historical background, is the main factor in determining a high degree of isolation,

lack of knowledge about the investment opportunities, about markets, and about the possibility of developing economic organizations in the local areas of the different countries of Latin America. Also, it was concluded that these conditions have not permitted an efficient use of the substantial profits derived from the agricultural sector. On the contrary, these profits are the main causes of increases in the price level. To solve this situation it is suggested that a policy of economic development be based on organized and coordinated investments from the high and middle income people of the local agricultural sector through the national decentralization and suitable leadership of the government institutions which are in charge of the actual strategy of economic development.

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A DIAGNOSIS OF THE SLOW RATE OF ECONOMIC
DEVELOPMENT OF LATIN AMERICA

by

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The report could be regarded as a framework of a theory of economic development and a case study discussed in two parts. In the first part of the report, the framework of a theory of economic development was structured from the definition of economic development and the definition of capital. Economic development was defined as "a complex process by which a country achieves a particular productive capacity which will permit a continuous increase in the per capita income of its inhabitants." Attention was called to the fact that economic development is a function of production. Capital was regarded as the production unit of the economy based on the definition of capital, which implies that capital is an output which can be used as a factor input for further production. The different capital inputs were classified according to their functions in four groups or categories which were called the organic components of production. The four groups of capital inputs or the organic components of production were: (1) resources, (2) technology, (3) social, political, and economic environment, and (4) entrepreneurship. Finally, some of the possible relationships within and among the different organic components of production were suggested.

The second part of the report dealt with the analysis of the organic components of production of Latin America. An explanation was presented, giving the reasons for the unequal distribution of income; the availability of technology; the human, managerial, and professional skills; the social,

political, and economic environment, and entrepreneurship, stressing and contrasting the dualistic conditions of the area. It was noted that enough capital is available for a more dynamic production, hence economic development, but this is not being properly used. The report closes with the conclusion that the economic development of Latin America could be achieved more rapidly if it were based on the organized and coordinated investments from the high and middle income people of the local agricultural sector through a rational decentralization and suitable leadership of the governmental institutions which are in charge of the actual strategy of economic development.